



“Ahluwalia Contracts (India) Limited Q1FY18
Earnings Conference Call”

August 23, 2017



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- Moderator:** Ladies and gentlemen, good day and welcome to the Ahluwalia Contracts (India) Limited Q1 FY2018 Earning Conference Call, hosted by Asian Market Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amber Singhania from Asian Market Securities. Thank you and over to you Sir!
- Amber Singhania:** Thank you Stanford. Good afternoon everyone. On behalf of Asian Market, I welcome you all to the 1Q FY2018 Earning Conference Call of Ahluwalia Contracts Limited. We have with us today Mr. Shobhit Uppal – Deputy Managing Director, Mr. Satbeer Singh – CFO and Mr. Rohit Patni – Investor Relations, Executive representing the Company. I now request Mr. Uppal and Mr. Satbeer Singh to take us through the quarterly results and the overall business outlook and then we can start with the question and answer session. Over to you Sir!
- Satbeer Singh:** During the year Q1 financial year 2018 company has achieved turnover of around 504.20 Crores and PAT of Rs. 29.52 Crores in comparison to turnover of Rs. 306.26 Crores and PAT of Rs. 21.22 Crores in quarter one financial year 2017. The company has achieved drop in year-on-year basis 55% in revenue and 35% in PAT and EPS of the company has also improved during the year Q1 financial year 2018 that is now 4.21 compared to 3.26 in corresponding period last quarter and this is also the EBITDA margin is 10.63% as compared to 14.15% in corresponding quarter and PAT margin is at 5.85% compared to 7.12% in the corresponding period. Right now net order book is around 3040 Crores. It is to be executed in next 20, 40, 30 months. That is the now you can proceed to your questions.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Nitin Arora from Aviva Life. Please go ahead.
- Nitin Arora:** Good afternoon. The first question was that we started with a run rate of about 500 Crores on a quarterly basis can you attribute how much would be related to the GST part that we would have build even let us say our July billing into the June quarter and how much was the cash collection against that and if you can also throw some light maybe some similar run rate we will see going forward excluding the GST part, which could take our execution above 15% for the whole year and the second question was with respect to the margins which we did this year, this quarter about 10.6% incrementally to meet our guidance we should be catching up very fast in the next few quarters so that’s remains intact or not that is my first part of it?



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- Shobhit Uppal:** The impact of GST that was your first question is about 35 to 40 Crores. So that is that and then going forward my guidance during the last concall was 12% to 15% so I think we are comfortably placed to increase this to about 15% to 20% as far as our turnover topline increase is concerned and as I have mentioned last time our margins are on the increase the effect of demonetization as predicted would wear off and this will improve and we should be around 12% at the end of the year.
- Nitin Arora:** Sir the second question was with respect to one was the cash collection against that revenue, which got built, so has the receivables really jumped up or the collection was still okay-ish in the Q1?
- Satbeer Singh:** Receivables will be increase approximately 50 to 60 Crores because they will be certified on July or maybe on August, so the payment will be received on August, so on June 31, their receivable will be higher side.
- Nitin Arora:** Sir my next question was respect to the bidding part as you always guide us what is really happening on the tendering and the bidding part if you can share some of the highlight on two aspects one what are the near-term pipelines what you are looking at in terms of bidding that is the first part from the government side? The second Sir what has been the update on the Surat Diamond project because earlier it was being decided to cut down the projects and packages and give it up now we hearing that it is going to be out as a single package? The third aspect of the same tendering was sir there was a large order from the Oppo factory which was a negotiated bid what he was trying to negotiate a lot of building players has it been out or we are still in talks or what has been the uptake there that is it?
- Shobhit Uppal:** You asked specifically the two projects as far as Surat is concerned officially you know the bid had gone out last time around when we spoke. Officially we have not heard anything from them, but my sources or our sources collect that tender is scrapped and will be a revised in it that is as far as Surat is concerned. As far as Oppo is concerned our information is that they have awarded the work to a Chinese player.
- Nitin Arora:** And Sir the pipelines what you are looking at?
- Shobhit Uppal:** Pipeline it is more of the chain. As I said we are negotiating with some of our existing clients very shortly in the next month or so we should be extending orders as far as existing projects are concerned. At this moment, I will not tell you the names and we are L1 in our projects, government projects, which is about 250 Crores that should translate into our orders in the next month or so and the order pipeline stands at about 2000 Crores.



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- Nitin Arora:** Thank you very much. I will come back in the queue.
- Moderator:** Thank you. We take the next question from the line of Prabhat Ananthraman from B&K Securities. Please go ahead.
- Prabhat Ananthraman:** Thanks for the opportunity. Congratulations on a good set of numbers. Just wanted some clarity on the subcontracting cost so basically if I see this quarter the subcontracting cost has come down on a Q-on-Q basis, if you could throw some light on what really led to this fall in subcontracting cost so that I believe minimum wages must have gone up over the quarter?
- Satbeer Singh:** That is basically again we would like to say that if you see increase in work WIP and stock in trade, because that is the major portion and that is to be allocated to all type of expenses then we will find out the true percentage of that, like subcontractors because WIP also includes WIP contractors also, materials also and employees benefit wages also, so that is why there we have now if you were want to find a true percentage of that so you will have to consolidate the percentage of the change in inventory of the work in progress and stock in trade.
- Prabhat Ananthraman:** I want to understand is going forward because our the main reason for why our margins were impacted last quarter and have kind of improved this quarter is because this higher subcontracting expenses, which we are incurring during demonetization. So just wanted a sense of going forward how this particular cost component can move and based on the movement in this cost component how our margins would look?
- Satbeer Singh:** In the last quarter results see as I told that the labor charges would be increasing, subcontracts cost will be increased. This year we as I told that advance see we have some improvement on our cost the labor charges will be down so there are that improvement of 1%. Debt will be seen in that subcontract cost. Last time they are improved on 1%. Debts are increase on the margin and we hope end of FY2018 we have a sum on normalized rate so we have once again and our EBITDA margin is 12% to 13%.
- Prabhat Ananthraman:** 12% to 13% I did not get the guidance on the EBITDA margins also sorry.
- Shobhit Uppal:** It is between 12% and 12.5%.
- Prabhat Ananthraman:** Sir that is it from my side. If I have any further questions I will get on the queue. Thank you.
- Moderator:** Thank you. We take the next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead.



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Vibhor Singhal: Good afternoon Sir. Congrats on a great set of numbers. Just had a couple of questions. Sir just further clarification on the margin guidance front, when you say that the margin guidance is 12% to 12.5% so does that mean that for the full year FY2018 we will report somewhere between 12% and 12.5% right.

Shobhit Uppal: Yes.

Vibhor Singhal: So given that we have reported 10.5% in the first quarter that means for the next three quarters we would need to report north of 13% as the EBITDA margins and we are confident of that?

Satbeer Singh: Yes we are.

Vibhor Singhal: Fair enough that is good to hear Sir. Secondly Sir on the pipeline front you mentioned there is a 2000 Crores of order pipeline that you are currently bidding for so basically Sir at this point of time if we look at the 3000 Crores of order book this is around less than two times book to face and on top of that we are looking at around 15%, 20% kind of a growth guidance so that means us will be around 1500 to 1600 Crores of topline in this year itself. So how does that lead order book looking beyond FY2018 so is there any specific amount of orders that you are targeting in this year that we could be more assured of the growth beyond FY2018 do you see a pipeline maybe it coming towards the latter half of the year or how should we basically see the numbers panning beyond the current financial year?

Shobhit Uppal: As I have mentioned in the last time around because I expect this increased competitive intensity to last year about a year, year and a half so we are not throwing caution to the winds, we had revised the last time around the new order inflow to about 1200 Crores and we are confident. As I said over the next month, month and a half we should be having incremental orders worth about 350 to 400 Crores and we expect to cross 1000 Crores in this year and then as we come closer to the next round of general election, I feel that there is going to be a more bids that are going to come out and the competitive intensity should also reduce so we feel we are comfortably placed to beat our growth target of 15% to 20% over the next two to three years.

Vibhor Singhal: That is great to hear also Sir from the order what I think you are seeing any incremental acts of I know because our geography is quite limited to northern and western part of the country?

Shobhit Uppal: Eastern also there were we have a significant present in the eastern part of the country.

Vibhor Singhal: I am sorry yes Sir, north, east and the western part of the country a many of our competitors have started grabbing some large orders from the Pradhan Mantri Awas Yojana scheme so would that also be a kind of focus and do you also see some orders trickling from that scheme as well?



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- Shobhit Uppal:** Yes but I am repeating myself we feel that we can still afford to pick and choose and not throw caution to the wind, we feel there is going to be a lot of work that is going to come in from the healthcare sector, from the education sector and also the redevelopment sector. One of the projects that I mentioned that we are L1 in the redevelopment sector so there is I feel going forward 2019 there will be a lot of work so and also we see revival happening especially on the private side in the commercial sector so there is we feel there is going to be enough work for us to meet our guidance, as far as topline growth is concerned.
- Vibhor Singhal:** Just last bookkeeping question can I get the debtor days at the end of the quarter and also the gross debt.
- Satbeer Singh:** The gross debt is 80 Crores and days we have approximate 125 to 130 days.
- Vibhor Singhal:** Fair enough. Thank you so much Sir and all the best.
- Moderator:** Thank you. We take the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** First of all congratulations on good set of number. Sir one clarification needed when we are saying in terms of the particular margin next three quarters it would be definitely 30% range so will the second quarter will be slightly in the range of 11%, 12% and maybe second half would be we can see a 13.5%, 14% kind of a range?
- Shobhit Uppal:** Yes we should be getting back to the highs that we had again the pre-demonetizations last quarter.
- Shravan Shah:** Sir few data points what was the order inflow during the quarter?
- Shobhit Uppal:** Zero.
- Shravan Shah:** Can I have ea breakup of order book?
- Satbeer Singh:** Order book in government is 68% and private is 32%. Segment wise then commercial is 5%, hospital 22%, infra 13%, institutional 27%, residential private 25%, residential government 8%.
- Shravan Shah:** Sir last time we were saying in terms of the slow moving and fixed orders so around 100 Crores was fixed and 300 to 400 Crores kind of are slow moving residential so is the number same?
- Satbeer Singh:** Yes approximately 80 Crores is the fixed order contract because 25 Crores is exceeded.
- Shravan Shah:** Slow moving Sir.



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- Satbeer Singh:** 300 Crores.
- Shravan Shah:** Sir in terms of the last time we were saying interest cost I can see this can it has reduced significantly so we guided around 22 to 24 Crores for full year so can we look at around 16 Crores, 18 Crores kind of a range for full year interest?
- Satbeer Singh:** It is 10 to 12 Crores.
- Shravan Shah:** Pardon.
- Satbeer Singh:** It is 14 to 15 Crores.
- Shravan Shah:** Sir regarding the last time we were talking about DDA and NBCC your orders because we were saying there was a criteria is on the stringent side so has it changed or if you can update?
- Shobhit Uppal:** No on the contrary we were saying that criteria have become a little diluted and there is more competition. I had said that for the next one year the competition is going to be more.
- Shravan Shah:** No you are saying for Pragati Maidan, they were asking for completing the project in two years so I was asking one that aspect so has it changed or still they going with that criteria?
- Shobhit Uppal:** I think they are still going with that criteria but one thing is there that what we had committed to the Prime Minister's office that it will be completed in 2019 that they have done away with that, but with that project there are lots of other issues also that is why we continue to not be a part of the bidding process there though on our own we do not qualify also but we could have qualified with the joint venture partner as an Indian partner but we are a little weary of bidding for that job.
- Shravan Shah:** Lastly Sir can you help me in terms of the let us update on Kota Project?
- Shobhit Uppal:** Yes Satbeer was here so he will take you through that project.
- Satbeer Singh:** We have basically it is around on lease rental that is around 26 Crores this quarter and going forward we are expecting that during this year also it is around 2.5 Crores lease rental revenue and that is to including our depreciation and license fee, notional fee that would be I think 8 Crores to 9 Crores loss would be there but we will say cash loss would be around 75 lakhs and going forward in next year we are expecting 10 to 12 Crores lease rental and we are expecting that in next year we will earn cash profit and slightly I think profit in the books also.
- Shravan Shah:** So currently occupancy is how much?



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- Shobhit Uppal:** Currently occupancy is about 62%.
- Shravan Shah:** Anything happening on the selling or bringing any investor in this project?
- Shobhit Uppal:** No, at the moment we feel it is a little too early. Once the occupancy crosses about 80% to 85% then we will look at and we will be able to get the right value.
- Shravan Shah:** That is it from my side. All the best. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Utsav Mehta from Ambit Capital. Please go ahead.
- Utsav Mehta:** Good afternoon. Sir, just one question from my side on the interest cost. I see it has fallen quite a bit. Our debt quarter-on-quarter has not changed materially and we have also revised our guidance for the full year interest cost downwards quite materially from 14 to 16 Crores. What has changed in this that caused this huge dip?
- Satbeer Singh:** Basically they are two part of our interest cost, one is mobilization advance and second is bank borrowing. So in the last quarter or this quarter we have almost repaid 20 Crores to 25 Crores from bank. Second thing in the mobilization advance, we have a mobilized advance in mostly three or four projects and their running speed is very good, so their interest cost will be down and ITT Patna or Patna two project Bihar we have initially full payment of the mobilization advance and also interest rates is also coming down right now so that is also coming around 9.25% or 9.50% against last quarter, which was around 11% so that is why it has also come down due to rate also, due to decrease in borrowing also, and decrease in mobilization amount also.
- Utsav Mehta:** So, would it be fair to say that customer advances by the end of this year will be significantly lower than what they were last year?
- Satbeer Singh:** Yes this quarter. Last quarter in Q4 FY2017 and this quarter of FY2018 that is the reason the interest cost will be certainly down.
- Utsav Mehta:** That is all from my side. Thank you so much. Best of luck.
- Moderator:** Thank you. We will take the next question from the line of Sagar Parekh from Deep Finance. Please go ahead.
- Sagar Parekh:** Good afternoon Sir. Thank you for taking my question. Sir, my first question is on the order inflow guidance. You said that for the full year FY2018 order inflow is expected to be around



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1000 to 1100 Crores. So have we toned down the guidance because earlier I recollect that in Q4 call, we had mentioned 1400 to 1500 odd Crores numbers.

Shobhit Uppal: I think I mentioned 1200 to 1400 Crores, and I also qualified that by saying that because the competitive intensity being what it is we do not want to significantly change the way we bid out since we are comfortable in orders in hand. Even if it is sub-1000 Crores our growth targets will not be effected. So we are looking at 1200 to 1100 Crores.

Sagar Parekh: Sure and on the NBCC N Nauroji Nagar project any update? Are we bidding for that project for this contract of 3000-odd Crores?

Shobhit Uppal: No we are not.

Sagar Parekh: That is all from my side.

Moderator: Thank you. We will take the next question from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Sir just one clarification, the Kota revenues are getting recognized in the standalone only, right, the 26 lakhs revenue right?

Satbeer Singh: Yes, please.

Nitin Arora: Can you give me the depreciation that you have accounted for this quarter?

Satbeer Singh: This is 75 lakhs.

Nitin Arora: The depreciation in this quarter?

Satbeer Singh: That is 75 lakhs and notional lease rental around 156 Crores.

Nitin Arora: The revenue, which was recognized in this quarter, was 26 lakhs?

Satbeer Singh: Yes.

Nitin Arora: Depreciation 75 lakhs. Shobhit Sir, just one clarification needed from you is that the event which happened some days back with respect to the political side, when the first information report was released generally correct me if I am wrong, as per the sections 143 or I think 149 the questioning needs to happen by the CBI. It is just a norm or the law. Has that happened or is there something



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was more to do with political sub, because everything was very well articulated in our reports throughout?

- Shobhit Uppal:** I do not think. You guys know that we were not in the list so we have not been in question.
- Nitin Arora:** Got it. The borrowing cost, which was taken in the concall right now it is about 9.5%?
- Satbeer Singh:** Yes. Borrowing cost is 9.5%.
- Nitin Arora:** Thank you very much and all the best.
- Moderator:** Thank you. We will take the next question from the Parkishit Kandpal from HDFC Securities. Please go ahead.
- Parkishit Kandpal:** Congrats on good set of numbers. Within your segment, I mean you said that there is competitive intensity has gone up one and a half years, one and a half years, there will be intensity in the competition but where do you see the segments and which segments do you see the major activity or ordering coming up over the next one year within your segments like residential, private, government or commercial or infrastructure institutions, which will be the key segments which will be driving the order inflows?
- Shobhit Uppal:** Education, healthcare, institutional and affordable housing.
- Parkishit Kandpal:** So we are all well placed to bid in all these segments even in the affordable housing?
- Shobhit Uppal:** Yes.
- Parkishit Kandpal:** Sir if you can just highlight this Pragati Maidan so when the bid was called so I understand there are only two bidders and if you can just throw some light like how much was the bids and how are the project cost and has this project being called off like this it is getting retendered?
- Shobhit Uppal:** Yes it is getting retendered. The first bid has been cancelled because the estimated cost put to tender was about 1700 Crores and the bids that we have got was about 3300 Crores almost 100% increase. There were only two bidders who had come in so I think we have called for the rebid.
- Parkishit Kandpal:** But how has NBCC is approaching this entire issue, I mean, the project cost on this 100% higher the bids versus the project cost now how has the NBCC bid department or the management assessing the entire issue and they also have to execute the same on the ground so what kind of communication you have received and how are you approaching this entire bidding now?



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- Shobhit Uppal:** Though we are being requested to bid, as a joint on our own we will not qualify. If at all we bid which is highly unlikely it has to be with the foreign joint venture partner, but in the revised tender also NBCC has not revised their estimates so that is why I am saying it is highly unlikely that we will bid, because their estimate is not realistic.
- Parkishit Kandpal:** But why such a huge difference typically are you seeing this kind of differences in the bids which have put out by NBCC almost like 80%, 90% higher than the estimate?
- Shobhit Uppal:** No they have not factored in certain costs, which would be there to execute such a humongous project in the timeline that they are looking at.
- Parkishit Kandpal:** Is it largely to do with the working capital cost, which will be required there is such a huge difference?
- Shobhit Uppal:** Well they will call for run rate of close to 100 Crores every month to maintain the kind of logistics to do that kind of this thing there are huge costs and then this is huge infrastructure cost and the overheads on a project like this would almost be double of that as a normal project so that and secondly this will be a project which will be monitored by the PMO. The costs that will go in to maintain the kind of quality requirement, safety requirement, so on and so forth so we feel it is too much troubled for a company our side.
- Parkishit Kandpal:** What is the single largest bid we can now put in to be qualified for likely the logistic or a bid?
- Shobhit Uppal:** It depends. In the private sector as you people know we bid for this Surat Diamond Bourse project, which was running into multiple thousands of Crores. As far as the government is concerned depending on the qualifying criteria we can bid for projects worth 700 to 800 Crores.
- Parkishit Kandpal:** Are we already in talks with some foreign JV partners so exploring any opportunity in this space?
- Shobhit Uppal:** Yes we are talking.
- Parkishit Kandpal:** So is there some chance that you made to get bidding for this project?
- Shobhit Uppal:** If not this maybe another project. Our logic primary logic of staying away from this project is that it as you said it has a run rate of about 100 Crores for more every months. The way NBCC governance stands at the moment it is there are likelihood but the payment can get delayed by a couple of months. Their CMD is very dynamic but down the line there are issues so if 200 Crores gets held up a company like us the foundations gets shaken so we do not want to take that risk.
- Parkishit Kandpal:** Lastly on the capex side, Sir how much is the capex we intent to do this year?



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- Satbeer Singh:** In this three months, we have a maintenance capex of 5 Crores.
- Parkishit Kandpal:** Full year what you are looking at?
- Satbeer Singh:** Full year will be around 18 Crores to 20 Crores.
- Parkishit Kandpal:** We will just be maintaining the depreciation levels, which you are recording in the books?
- Shobhit Uppal:** Yes.
- Parkishit Kandpal:** I have seen some of your competitors they are recording the life to almost like 10 years, 10 to 12 years so within eight years we are depreciating to the extent of 4 to 5 years so why such a huge difference?
- Satbeer Singh:** It depends on the auditors and companies. We have a huge depreciation on every asset. The life is for 10 years, we have divided the total cost into 10 years.
- Shobhit Uppal:** Generally we feel that we are doing it the right way because we feel shuttering the life is about four years, so that is why we are writing it off after four years.
- Parkishit Kandpal:** That is the accounting line for like you can still you could have used your shuttering material beyond four years also, like seven or eight years.
- Shobhit Uppal:** Generally good construction practice, construction risk, four years is the life of shuttering. Yes, when it comes to certain machineries such as cranes and all, that they can be used for about eight to ten years, but shuttering has to happen, the life is about four years, maximum.
- Parkishit Kandpal:** So within four years, you will scrap it and you will sell it, so basically that will not be there on your books?
- Shobhit Uppal:** Generally yes, we have a continuous process of quality norms, the way they are in the company the shuttering is constantly the old one is sold and scrapped.
- Parkishit Kandpal:** Is there any recoverable or salvage values? Suppose you have bought it for 400 and after four years you sell it so what can you recover from there?
- Shobhit Uppal:** Obviously whatever scrap is sold there is some salvage value to it, which is again clawed back to remake new shuttering, but there is off hand, I will not be able to give you a figure on that. As I said there is scrap value to it, off hand I will not be able to give you a value to that.



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- Parkishit Kandpal:** That is all from my side. Thank you and all the best.
- Moderator:** Thank you. We will take the next question from the line of Parvez Akhtar from Edelweiss. Please go ahead.
- Parvez Akhtar:** Good afternoon Sir and congratulations for an excellent set of numbers. Sir, just one question from my side, considering our order intake guidance of about 1200 Crores this year we may probably end the year with a similar order book of roughly about 3000-odd Crores. At that point of time, our revenue visibility will be less than two years. Keeping that in mind what is the kind of growth that you think we can log in FY2019?
- Shobhit Uppal:** Anywhere between 15% and 20%. I do not think it is relevant that we will be at about 3000 Crores and not at 3500 Crores. We feel that the projects that we since our slow moving orders are behind us, the orders that we have in hand they are moving fast. As I said in the beginning of this concall we are looking at extending relationships with some of our existing clients, private and with the increased pipeline that I see coming closer to the next round of general elections, I feel we are in a good spot to maintain the targeted growth.
- Parvez Akhtar:** So let us say in case whatever new orders that you are getting you feel that they will not see the kind of issues that we have faced in terms of order slowdown, etc., what is the kind of execution cycle that we see on those projects and even on the current set of projects that we are confident that we will be able to maintain the kind of growth over the next year. Would it be less than two years?
- Shobhit Uppal:** No, I think two years is the ideal time that is there for a lifecycle of a project, so it will be about two to two and a half years, but what we will see is that the delays will be minimized. Normally in the past also the projects, which are for about two to two and a half years they have gotten completed in about four years, three and a half to four and a half years. I do not think going forward there will be such delays on most of the projects.
- Parvez Akhtar:** Great Sir. Thank you. All the best for the future.
- Moderator:** Thank you. We will take the next question from the line of Prem Khurana from Anand Rathi. Please go ahead.
- Prem Khurana:** Good afternoon Sir. Congratulations on a very good set of numbers. Sir, I basically have two questions; one was I basically wanted to understand how is the execution pace has been between government orders and private orders and as I see it at least in this quarter I think we have been able to move better on our private orders because last quarter, government orders were around



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69% of the total order backlog. It is at around 68% odd and then private is 32% odd so how do you see these execution kind of moving between these two sectors rather planning sites?

Shobhit Uppal: As I said, there are signs of revival especially on the commercial side and education sector as far as the private sector is concerned. Over the next two years, we feel that this ratio would become more equitable about 60:40. That is what you are asking?

Prem Khurana: Yes, because even in your opening remarks you said and you are looking to get into some talks with your existing clients to get some more orders, repeat orders from these clients and most of these would be private, right so which essentially means then your private would go up from current levels so I mean what could be the sustainable number on and the mix that you would get to have from government or private going forward or going ahead?

Shobhit Uppal: It will be about 60:40. I have always maintain that we would like to bring it to 50:50, but over the next couple of years it will be about 60:40?

Prem Khurana: And most of the new orders would be in the commercial, real estate segment and residential, is it fair to assume because I mean commercial seems to be moving better than residential at least these days?

Shobhit Uppal: Yes, commercial and also education.

Prem Khurana: Sir last question from my end. I think a couple of quarters back you talked about wherein you talked about insulate you from your any cash losses or from any delay in receipt of payments from your clients you were taking over some inventory or real estate inventory from your clients so and as far as I kind of see your annual report and there appears to be some Rs.47 odd Crores of inventory available with you as of now so how long in your fair assumption how long would it take you to kind of liquidate this inventory and is there any chances of this number going up because is it that you would require some more inventory in this year as well because last year was the first year when I get to see this number, so where was this number kind of here to as and going head in FY2018 and 2019 do you see this going up or coming down?

Shobhit Uppal: Over the next one year this may go up because as you know cash flow wise we are okay and we do not whatever inventory we have acquired we feel there is no need to do any distressed sale so we will only be selling this obviously we will be liquidating all of it but we will do it only when the prices stabilize or go up. Yes in the short-term over the next one-year this number may go up.

Prem Khurana: Sure and most of this would be in NCR region only?

Shobhit Uppal: No there is some in Mumbai and there is some in Kolkata but yes most of it is in NCR.



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- Prem Khurana:** Just one last bookkeeping question, if you could help me with the cash number, cash on hand as of now, cash and bank balance?
- Satbeer Singh:** Cash and bank balance is around 66 Crores right now as of June 30 and it includes majorly around 45 Crores in FDR lying with the bank as a non-fund basis.
- Prem Khurana:** Thank you. That is it from my end.
- Moderator:** Thank you. We will take the next question from the line of Rahul Agarwal from VEC Investments. Please go ahead.
- Rahul Agarwal:** Good evening. Just two questions; one is on somebody asked on the impact of GST and you said you saw a 35 to 40. Could you clarify what does that mean actually.
- Satbeer Singh:** We bill every month end. So in most of that end every time 30 to 40 Crores will be sent back and we convert only 35 in the next quarter, but this time because of GST that is the reason the last bill we generated on rate or service tax. So there will be a 35 Crores in this quarter that is the reason our revenue will be an increase of 35 Crores to 45 Crores. Otherwise they will be going on to the next quarter.
- Shobhit Uppal:** Basically what this means is that the clients due to the uncertainty on what the impact of GST would be on our tender, on the prices quoted to the clients they have certified about Rs.30 to Rs.40 Crores more than what would have been done normally.
- Rahul Agarwal:** So you have billed them about 30 to 40 Crores etc?
- Shobhit Uppal:** No, we have not billed them extra. Do not misunderstand me. We have billed what we always do. It is just this normally there is a bit of a delay in certifying that. Normally the WIP number is more. This time around the client has with more alacrity there has been more proactive in certifying faster let me put it that way because obviously there is going to be some impact incremental impact of GST on the pricing.
- Rahul Agarwal:** So understood on this 35, 40 Crores just last thing on the GST so essentially what has changed because of GST in your business so let us say if you are having order book of 3000 Crores March 31, or maybe June 30 we can take 3040 as net order book what will change from July like second quarter the reporting might be different?
- Shobhit Uppal:** No in terms of absolute numbers, which everybody is, still working out as I said there is going to be an additional impact of taxation.



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- Rahul Agarwal:** So earlier there was no service tax billed is it.
- Shobhit Uppal:** Sorry.
- Rahul Agarwal:** Earlier you use to bill service tax.
- Shobhit Uppal:** Yes service tax on most of the contracts we used to deposit then bill it to the client who use to reimburse it to us on some most of the projects. Now the service tax obviously it is subsumed in GST so what is going to happen I think what I understand from our question is if we have 3040 Crores of our net order book in terms of absolute number this may go up by 6%, 7%.
- Rahul Agarwal:** Okay which will be ratified by the customer.
- Shobhit Uppal:** Yes at the moment activity is going all around with government customers, private customers everybody is trying to find out what the exact impact is. Generally I think this will be in the range of 6% to 7% but it will defer from client-to-client or rather projects-to projects.
- Rahul Agarwal:** Got it and service tax earlier was 15 and now the GST how much.
- Shobhit Uppal:** Service tax if you look at a number ballpark it was about 6% on the cost of the project. It averages out to about 6% now that 6% is included in 18%, 18% is the GST rear on this 6% has become a part of this 18% and also WCB/VAT was about 5% to 6% that has also become a part of GST.
- Rahul Agarwal:** So that is why the difference of 6% to 7% is yet to be ratified.
- Shobhit Uppal:** Exactly yes.
- Rahul Agarwal:** Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Utsav Mehta from Ambit Capital. Please go ahead.
- Utsav Mehta:** Thanks for my followup. Just one update is there any progress that you can share on the arbitration with MR?
- Shobhit Uppal:** There is no significant news that we can share with you. It is happening. The hearings are continuing so as I had mentioned last year it will take about a year, year and a half.
- Utsav Mehta:** Thank you so much.



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- Moderator:** Thank you. We take the next question from the line of Divyata Dalal from Systematix Shares. Please go ahead.
- Divyata Dalal:** Good afternoon. Congratulations for very good set of numbers. Sir I wanted to check on the newer segments that we were talking about earlier mainly the metro side and the MEP side can you throw some more light on whether are we still looking at this segment in terms of metros and the MEP?
- Shobhit Uppal:** Yes metros we have submitted some bids in the last quarter. We have not been successful but yes now with the new metros or nearly 300 odd kilometers of metro lines having been announced in the existing metros and newer metros also coming in this is a focus area for us and we will be continuing to bid. As far as MEP is concerned generally what we do is that the component orders that we get are MEP teams, our in-house MEP teams work on those orders but yes going forward we would be bidding these verticals will be bidding independently also, but it left more to Greenfield expansion happening or industrial expansion happening so that is the areas where our MEP teams have worked in the past and as and when industrial expansion starts in real earnest they will be working there as well.
- Divyata Dalal:** In terms of metros our scope of work would be building station construction?
- Shobhit Uppal:** Yes station construction and we are also aggressive pursuing tie-ups to build credentials for wider constructions also basically we are looking at about ground road construction.
- Divyata Dalal:** Sir second question was regarding the incremental order inflows, which you mentioned sometime back of around 350 Crores to 400 Crores which can come in next two to three months maybe so does the L1 of 250 Crores is it a part of that or L1 is separate?
- Shobhit Uppal:** No it is a part of that.
- Divyata Dalal:** My last question is on the debt now since the debt is at around 80 Crores at the end of June the year end given that we have increased the guidance marginally how can we see the debt figure moving Sir?
- Shobhit Uppal:** It may come down to about 60 Crores. Our target is that we will become an almost zero debt company over the next two years.
- Divyata Dalal:** So the trajectory would be downwards in spite of increase in revenue that we are targeting?
- Shobhit Uppal:** Yes.



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- Divyata Dalal:** All the best. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.
- Parkishit Kandpal:** What will be the inventory of the flats right now in terms of value?
- Satbeer Singh:** 48 Crores.
- Parkishit Kandpal:** Against how much of debtors like what was the amount of debtors against which we have converted this inventory?
- Satbeer Singh:** I think that will be 48 Crores.
- Parkishit Kandpal:** 48 Crores debtors so we have not revalued the inventory this inventory as of now so 48 Crores debtors were converted into the inventory of flat but we have not revalued it as of now?
- Satbeer Singh:** This time we have not bought the trade.
- Shobhit Uppal:** No we have not revalued it, no.
- Parkishit Kandpal:** And this would be like at what period like what how much period this has been acquired?
- Shobhit Uppal:** This has been acquired over a last year, year and a half.
- Parkishit Kandpal:** But here what will be the accounting treatment, do we is there any the balance sheet get the value based or we just take it as a carrying book value or the carrying value?
- Satbeer Singh:** That has been shown in short-term loans and advances and whatever the cost of acquisition of that so that has been shown a short-term loans and advances.
- Parkishit Kandpal:** That is all from my side.
- Moderator:** Thank you. We take the next question from the line of Amber Singhania from Asian Market Securities. Please go ahead.
- Amber Singhania:** I just have two small things as you mentioned about this inventory which we have acquired a couple of quarters back so do we need to comply anything under RERA to sell it off or it is we would be just doing it as a buyer and seller on that day.



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- Shobhit Uppal:** Not really. We are not covered under RERA. This is simply trade off with our debtors you know what was owed to us we have acquired since the client was unable to pay cash, we have taken over the inventory to safeguard ourselves and whatever inventory we have taken this is in this is completed inventory it is not of flats, which are under construction.
- Satbeer Singh:** We are not a developer to come under this RERA. Developers come under RERA not on construction company yes any others will buy the flats, basically building contractors.
- Amber Singhania:** Sir secondly just as you mentioned about the bidding pipeline of roughly around 2000 Crores and segments you have mentioned if you can just throw some light on any large projects which are coming apart from that Pragati Maidan which you mentioned both in institutional, education and any other?
- Shobhit Uppal:** There are a number of IITs coming like to give you an example we are bidding for IIT Bhubaneswar, which is in excess of 500 Crores, there is IT Kanpur coming, there is IIT Roorkee coming, which are on similar side then there are redevelopment projects, which are in excess of 350, 400 Crores there are number of institutional projects we are bidding for an auditorium again with NBCC which is about 400 Crores we are bidding for a few hospitals which are in excess of 350 Crores so all these bids that are going out from our side are ranging between 250 Crores to 500 Crores in the order pipeline that I talked about.
- Amber Singhania:** Secondly Sir as you mentioned that yes order book will go up by 6%, 7% because of GST so that the cost increase pass on, on account of GST tax rates is also applicable to all the private side or is there any fixed price contract there where we might have some headwinds?
- Shobhit Uppal:** All contracts cost increase it is a pass to all clients.
- Amber Singhania:** So even on the private side there is no issue on in terms of any cost increase because of GST?
- Shobhit Uppal:** Yes there is no issue it is a pass through.
- Amber Singhania:** And the labor issues which was there because of demonetization, which led to the higher subcontracting is that, normalized now or it will take further neither a quarter or so to get normalizing.
- Shobhit Uppal:** Still taken out of the order issues.
- Amber Singhania:** So Q2 will be more or less sluggish only because of that and also because of seasonal thing as such.



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- Shobhit Uppal:** Yes.
- Amber Singhania:** Thank you. That is all from my side.
- Moderator:** Thank you. We take the next question from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.
- Parkishit Kandpal:** Sir after the RERA implementation so our contracts with the private developers has that undergone any change in terms of stringent timeline in terms of any penalties in delay on account of how about getting stock at the sites so what are the changes which are happening in the agreements with the developers?
- Shobhit Uppal:** I think the true effect of RERA will be seen after six to nine months more. What we see on the ground as it is residential construction is not our focus whatever order book is there what we are seeing on the ground is that developers who are able to improve the cash flows they are looking at now quickly finishing their projects and handing them over to the eventual customer what is happening with the Unitech's of this world or the JPs of this world or the Amrathalis' of this world has actually made the other developers more serious in terms of finishing their projects but having said that all of them continue to be deferred by cash flow problems, most of them in fact. So at the movement that grappling with the issues as to how to manage their cash flows but yes once we were do that or newer projects which will new projects which will be launched. I think they are more serious about making escrow accounts, placing money there and then making sure that construction does not suffer for want to money.
- Parkishit Kandpal:** But as of now there is no change in agreements, means you are seeing and a new bids which are coming upon the private and residential side so are they coming with any changes in the agreement terms and conditions bid us to RERA?
- Shobhit Uppal:** Not really. We have not really seen any significant change but having said that when you qualify that residential is not a focus area for us private residential and at the movement there are not very many contracts coming in also.
- Parkishit Kandpal:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions from the participants, I would now like to hand the conference over to Mr. Amber Singhania from Asian Market Securities for closing comments.



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Amber Singhania: Thank you Stanford. On behalf of Asian Market Securities I would like to thank all the participants and a special thanks to the management for taking out time and sharing insights about the company and the investor results. Sir would you like to add any closing comments?

Shobhit Uppal: Amber, thank you so much. I think this quarter has been good and we maintain our guidance for the next three quarters in the year as such thank you everybody, thank you so much.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Asian Market Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.